



**Senate Bill 6:
Implementation of the Small Employer Health Benefit Plan
Premium Subsidy Program**

Presentation to ESAHU & NAIFA- Chesapeake

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ACCESS and COVERAGE

Who are the uninsured in Maryland?

- “The uninsured” is not a single group but rather many different groups without insurance for widely varying reasons and for varying lengths of time

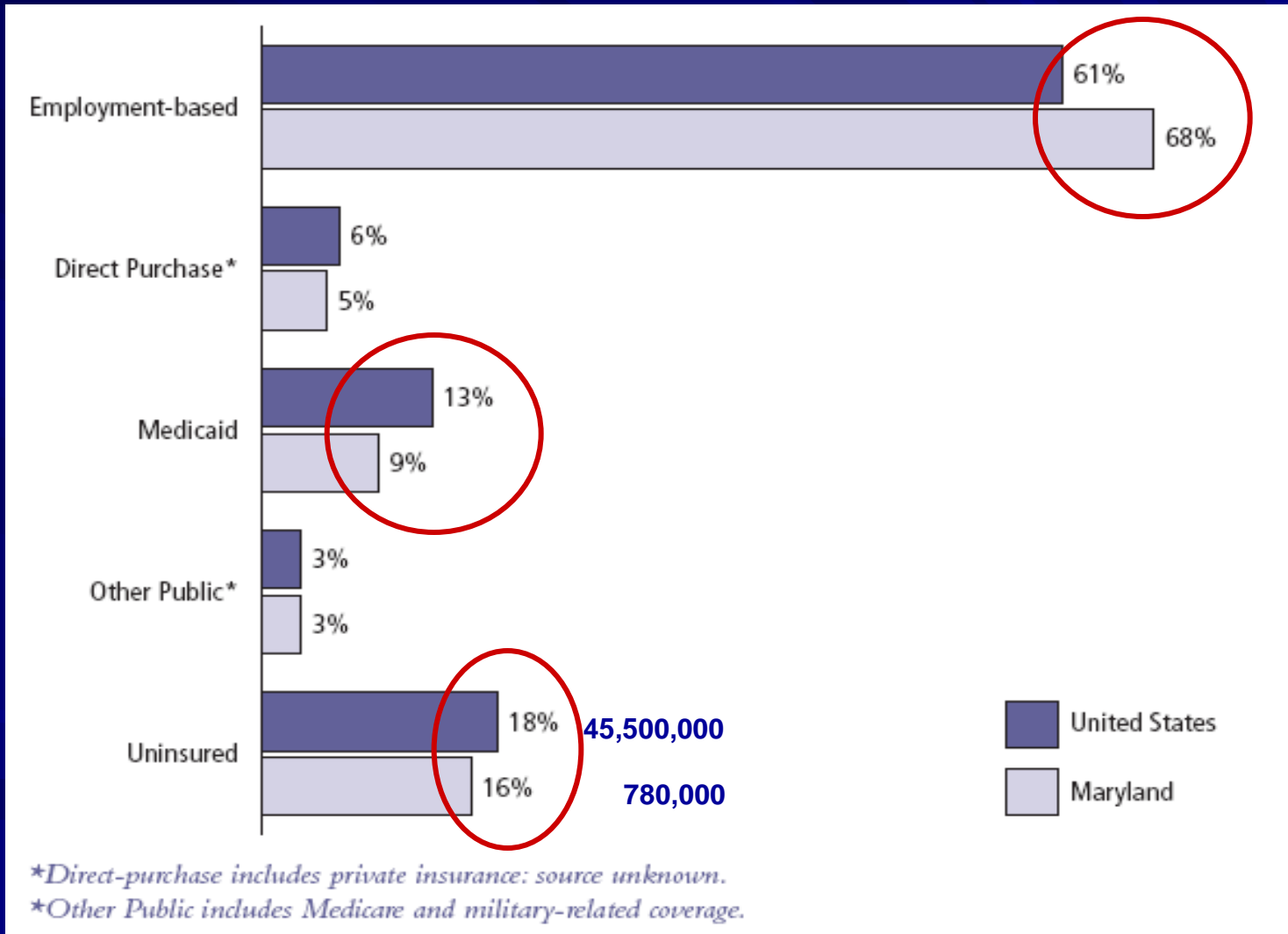
1,100,000

~~575,000~~

- ~~780,000~~ individuals, including 140,000 children
 - 14.2 % of the total population – 15.8% of the under-65 population

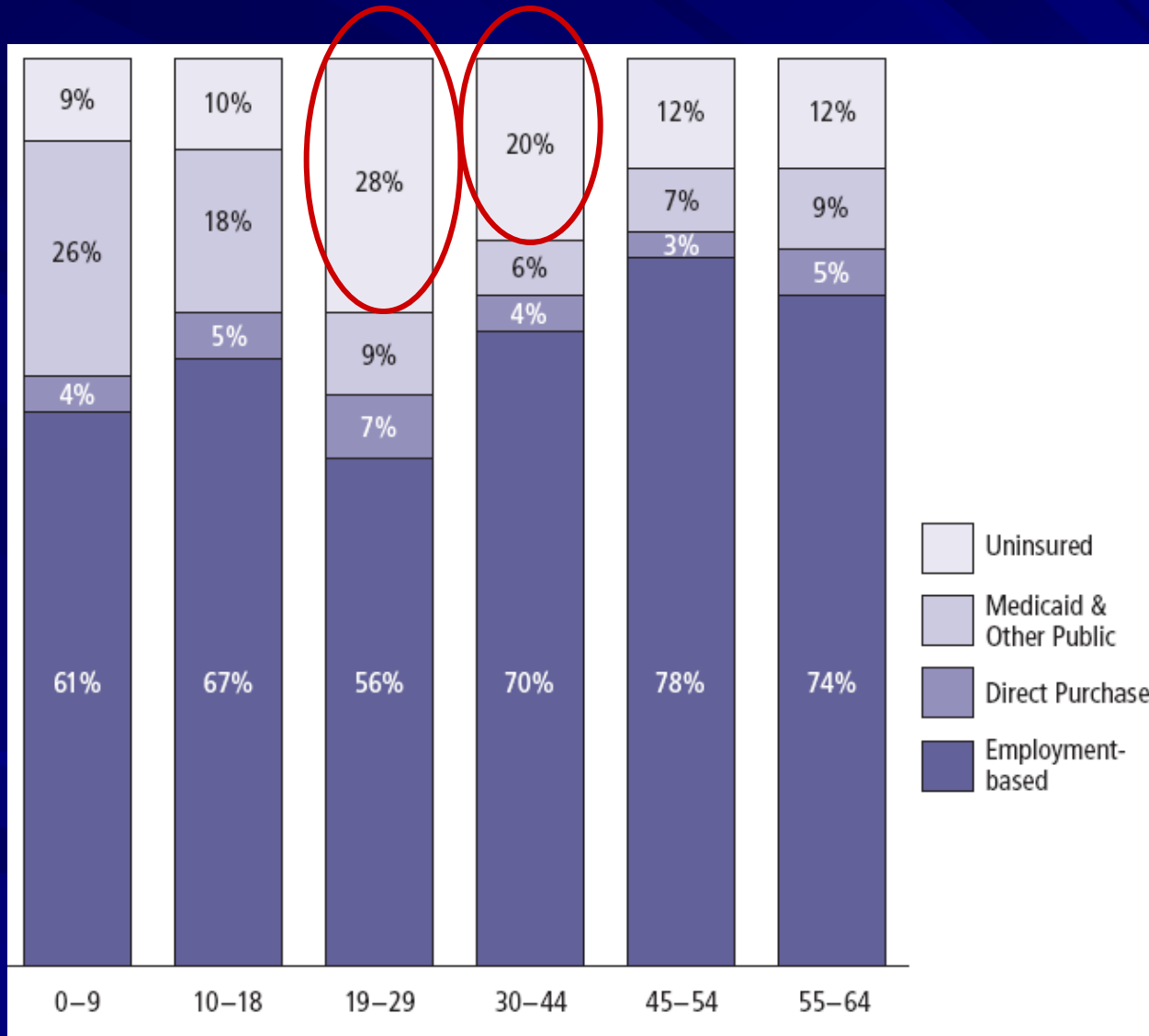
Comparison of Maryland with the entire United States

Health Care Coverage of the Non-elderly 2004-2005



Effects of Age:

Uninsurance rates are highest among 19-44 year olds

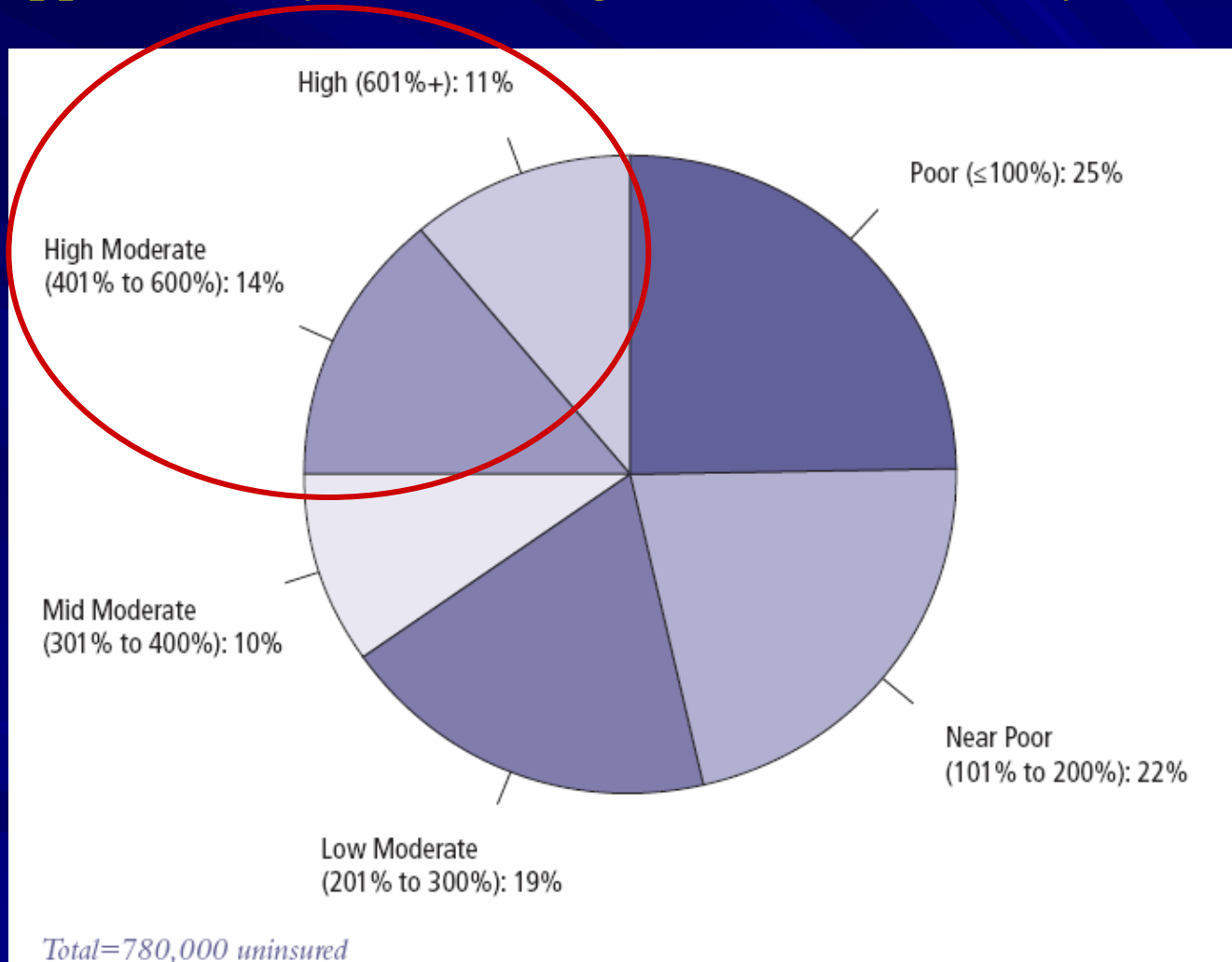


Young adults (19-29)

- Relatively healthy
- Lower health expenditures
- Being uninsured may be a rational choice if price is high relative to benefit
- “Young immortals” may not purchase even at a low price
- Mandate or penalties may be necessary to motivate purchase

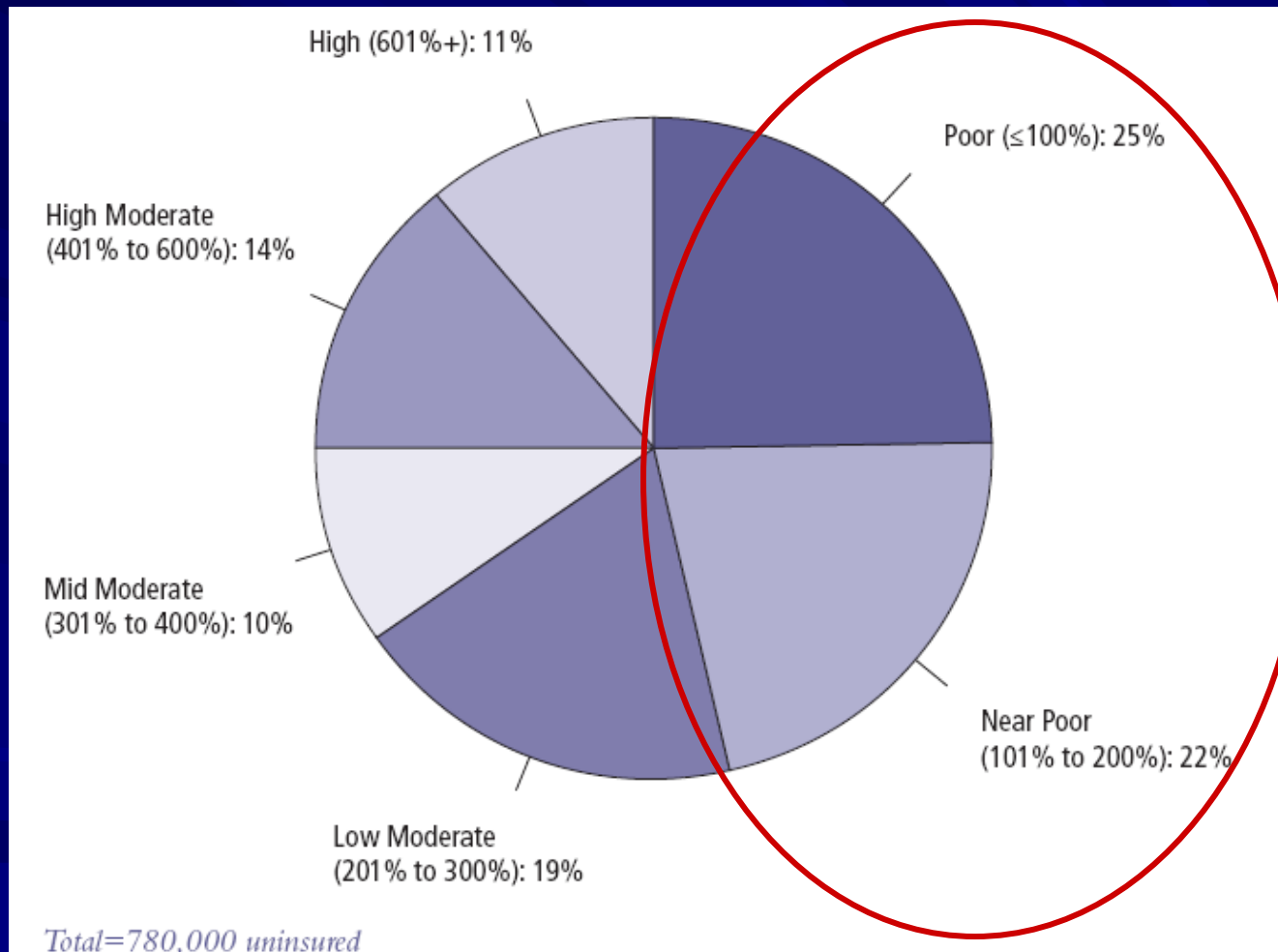
Income:

**25% of the uninsured have incomes above 400% of the Federal Poverty Level
(approximately \$40,000 single and \$80,000 family of four)**



Income:

**47% of the uninsured have incomes below 200% of the Federal Poverty Level
(approximately \$20,000 single and \$40,000 family of four)**

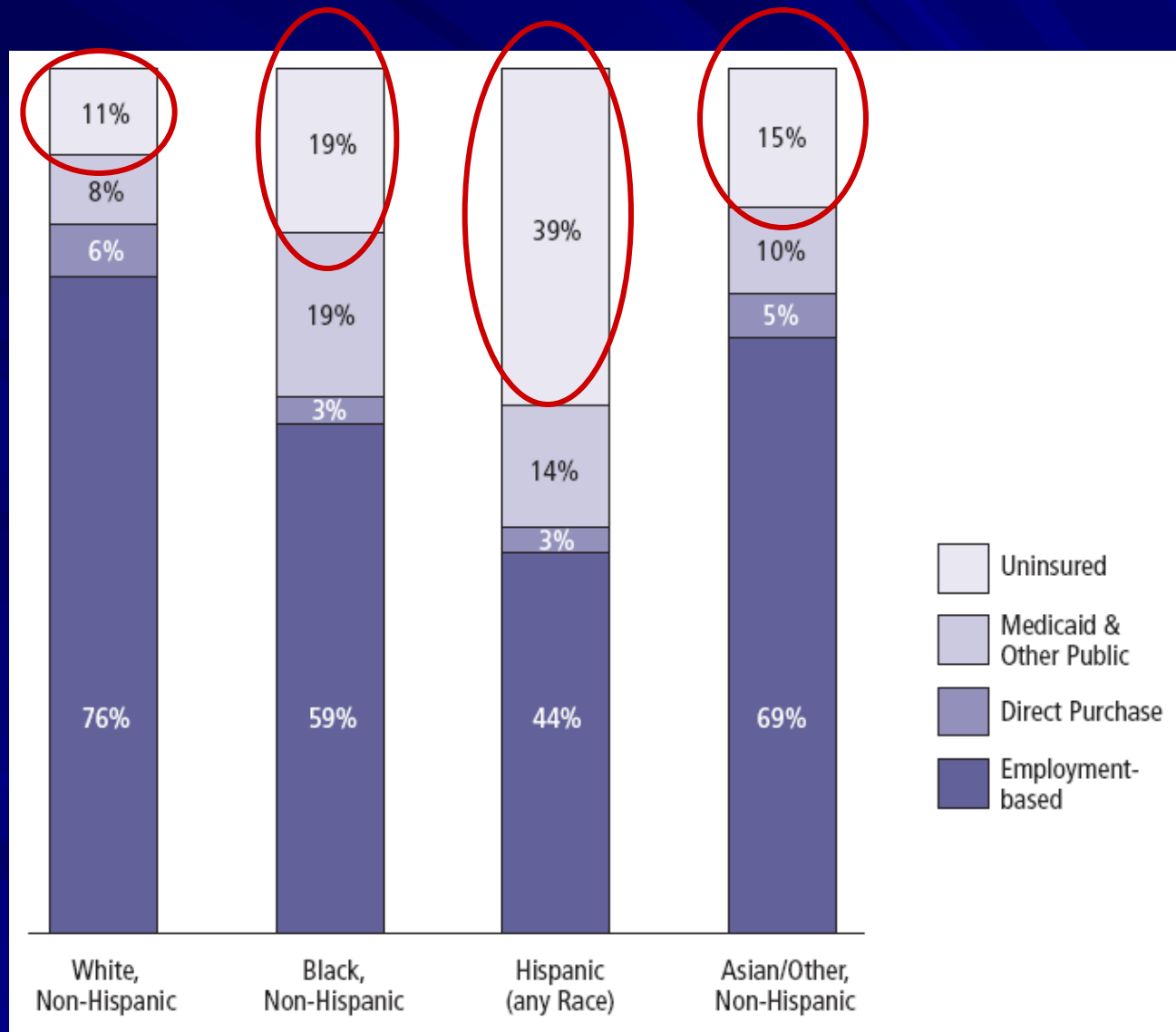


Family composition:

Single males are least likely to have coverage



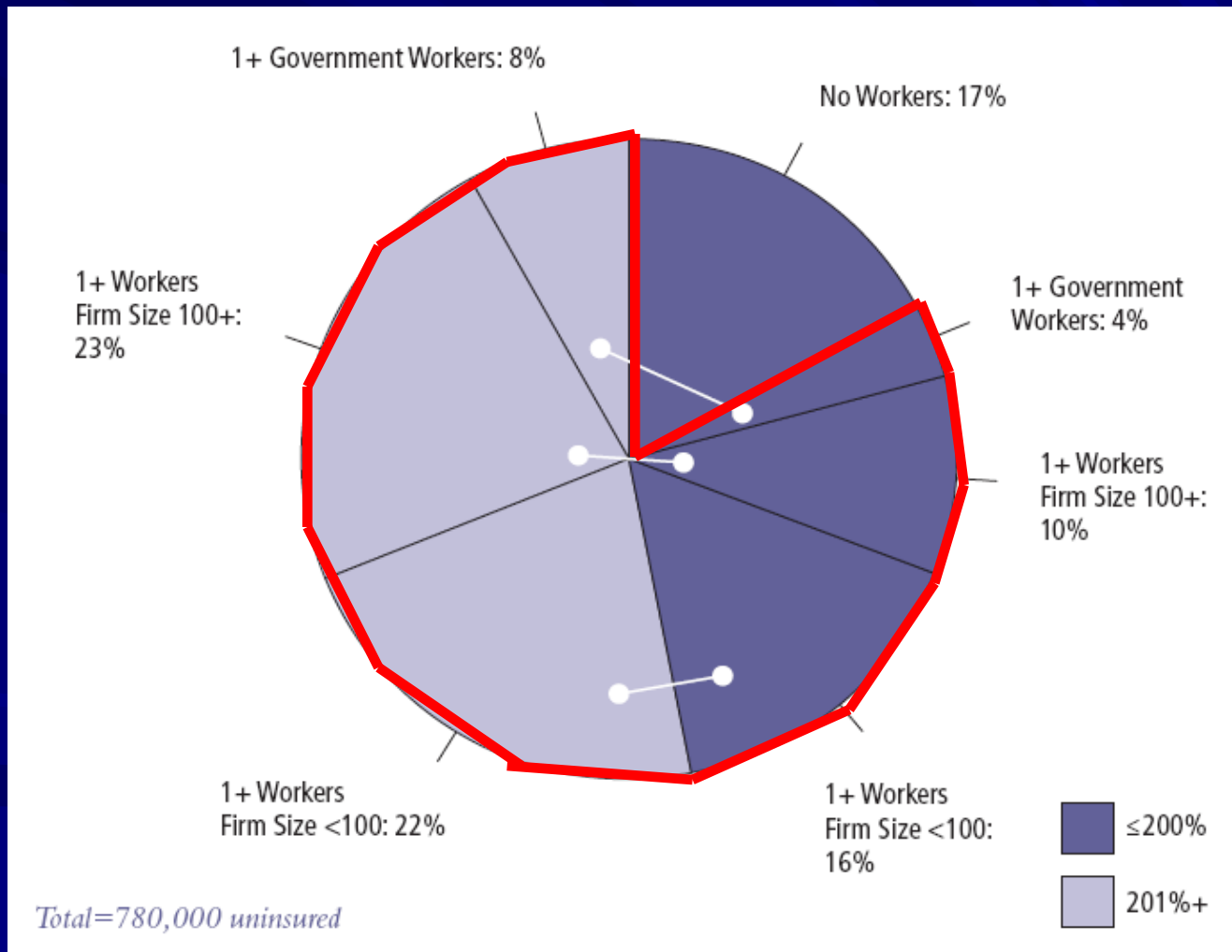
There are substantial racial and ethnic disparities in coverage



Employer sponsored health insurance

- Premiums continue to rise faster than wages
 - underwriting cycle
 - provider consolidation and bargaining pressures
 - technology, technology, technology (PHARMA)
- Employers have generally not increased the employee's share of the premium, but are increasing employee deductibles, co-pays
- Employers are considering greater cost shifting, the use of defined contribution plans, and an end to retirement health benefits
- Employers are also changing incentives
 - Employee incentives through HSAs, wellness, copays
 - Provider incentives through P4P, tiered providers, Leapfrog
- Some employers, particularly small businesses, are dropping coverage
 - Employment-based coverage in firms of 3-9 employees declined from 57% to 45% from 2000 to 2007

83% of the uninsured live in a family with one or more workers



Employer-sponsored insurance:

Coverage rates are substantially lower in small Maryland firms

Firms with under 25 employees have 42% of the uninsured employees in Maryland (but only 25% of all workers)



Firms with under 100 employees have 57% of the uninsured employees in Maryland (but only 37% of the workers)

Summary: Who are the uninsured in Maryland?

- 780,000 individuals, including 140,000 children
 - 14.2 % of the total population – 15.8% of the under-65 population
- The majority are young and healthy
- 83% live in families with at least one adult worker
- 44% are single adults who are not parents
- 47% have incomes below 200% FPL (approx. \$40,000 for a family of 4)
- A significant number of the uninsured are either on Medicaid/ MCHIP (the “Medicaid undercount”) or are eligible
- 27% are not US citizens
- Uninsured rates are higher in our Hispanic (39%) and black (19%) populations. This primarily reflects income differences, except in the Hispanic population
- Small businesses have a disproportionate share of the uninsured workers

Why This Matters

- There is a well-documented connection between insurance coverage and access to care and health:
 - The uninsured are more likely to go without needed care and have poorer health outcomes than those with insurance.
 - Care is often provided in the most expensive setting with the least continuity of care – the Emergency Department.
 - We all pay the cost of caring for Marylanders who either cannot afford or choose not to get health insurance.
 - In Maryland, premiums for family coverage were estimated to be \$948 higher because of uncompensated care in 2005. (*Families USA*)
 - *Hospital Uncompensated Care - \$800 million a year in rate adjustments*
 - *Caveat: Most of the uncompensated care is bad debt*
 - *Caveat: The Feds have already contributed to the fund through Medicare and Medicaid rates*

Senate Bill 6

2007 Special Session

- Expands Medicaid eligibility to cover parents with incomes below 116% FPL effective July 1, 2008
- Gradually expands Medicaid services for other adults below 116% FPL, subject to funding
- Creates the Small Employer Health Benefit Plan Premium Subsidy Program
- Net result: 100,000 fewer uninsured
- 1500 additional small employers

Small Business Health Benefit Premium Subsidy

Maryland Health Care Commission

In consultation with:

Department of Health and Mental Hygiene
Maryland Insurance Administration

Subsidy Design Team

The Governor and Administration

The General Assembly

- Members of the Health and Government Operations Committee
- Members of the Senate Finance Committee

Consultants - Academy Health / RWJ

- Jonathan Gruber, MIT – health economics consultation
- Mercer – John Welch – Section 125 plans and design advice

Carriers

Third-Party Administrators

Brokers/agents

Small business owners

Small business associations (NFIB, Chamber, Retailers and Restaurant Assn)

Maryland Health Care Commission

- Bruce Kozlowski, Director, Center for Health Care Financing and Health Policy
- Ben Steffen, Director, Center for Information Services and Analysis
- Janet Ennis, Chief, Small Group Market
- Nicole Stallings, Government Relations
- Mel Franklin, AG's office
- Plus: Administration, AG, Contracting, Regulations

Other State Government Agencies

- DHMH (design, implementation, financial management of SF)
- MIA (wellness regulations)
- HSCRC (regulations)
- Comptroller (subsidy payments, auditing family income)
- DLLR (quarterly wage reports as audit check, information dissemination)
- DBM (financial management and budget)
- DBED (information dissemination)

Small Employer Health Benefit Plan Premium Subsidy Program

The purposes of the program are to:

- provide an incentive for small employers to offer and maintain health insurance for their employees;
- help employees of small employers afford health insurance premium contributions;
- promote access to health care services, particularly preventive health care services that might reduce the need for emergency room care and other acute care services; and
- reduce uncompensated care in hospitals and other health care settings.

Small Employer Health Benefit Plan Premium Subsidy Program:

Eligibility Requirements in SB 6

At the time of initial application, the business meets the following requirements:

- The business has at least 2 and no more than 9 eligible employees
 - 30 or more hrs/wk
- The business has not offered insurance to its employees in the most recent 12 months
 - Corollary: Must have been actively engaged in business for 12 months
- The coverage purchased must have a wellness benefit
- The average wage of the eligible employees is less than an amount determined by the Commission (currently \$50K)

Design fundamentals:

- The program should have stability and continuity
 - Eligibility should not disappear or phase out unless firm grows and prospers
 - There should be no “cliffs” – abrupt changes in subsidy as firm grows or prospers
- The program should be simple and easily explained
 - Wages rather than income
 - Average wage rather than median
 - Subsidy applies equally to all employees – no separate employee income test except for family coverage
- The program must be affordable and “efficient” in an economic sense
 - Requires targeting a subset of small businesses
 - Requires targeting the program to employers not currently offering insurance – a tradeoff between efficiency and fairness
- The program should be designed to:
 - Provide employers with choices of plans
 - Simplify administration and keep administrative costs low
 - Maintain established business relationships, processes, and incentives
 - Assure that subsidies are seamlessly integrated into routine billing and payroll deductions
 - Assure effective auditing of the subsidy
 - Minimize bureaucracy while preventing fraud and abuse

Implications for Program Administration

Subsidize a variety of current small group market health plans rather than contract with a single carrier

Administer the subsidies through premium reductions, not through direct payment to employers and employees

- Basic agreement is with the carriers, who are free to designate subsidy administrators to handle administration and billing
- The subsidy is paid to the carrier
- Total subsidy is passed through to the employer as a reduced group premium
- The subsidy is shared between employer and employee in proportion to the amount each has contributed toward the premium
- Employers in turn must agree to pass through the employee's share of the subsidy in the form of lower payroll deductions for health insurance

How will the subsidy be delivered?

Current design, subject to change

Application

Apply for insurance and subsidy
Include info re wages and existing coverage for all employees

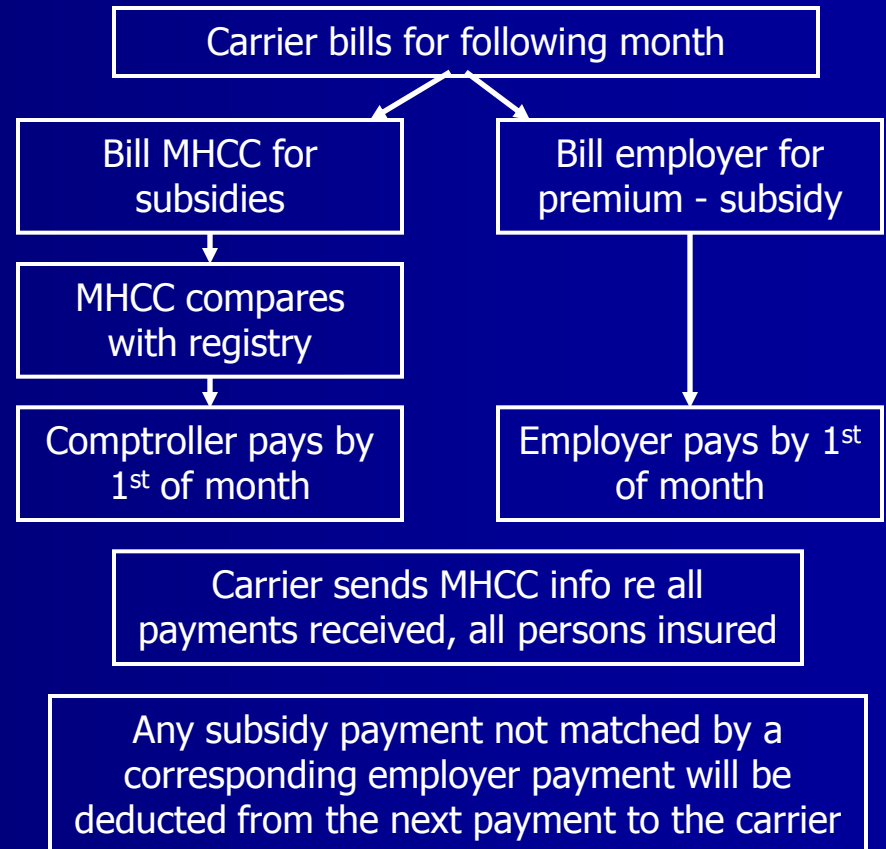
MHCC registry confirms

- The subsidy rate for each type of coverage (indiv, +children, +spouse, family)
- The total premium subsidy amount passed through to the employer
- The subsidy to be passed through to each employee through lower payroll deductions

Employer begins payroll deductions for employee's share of premium

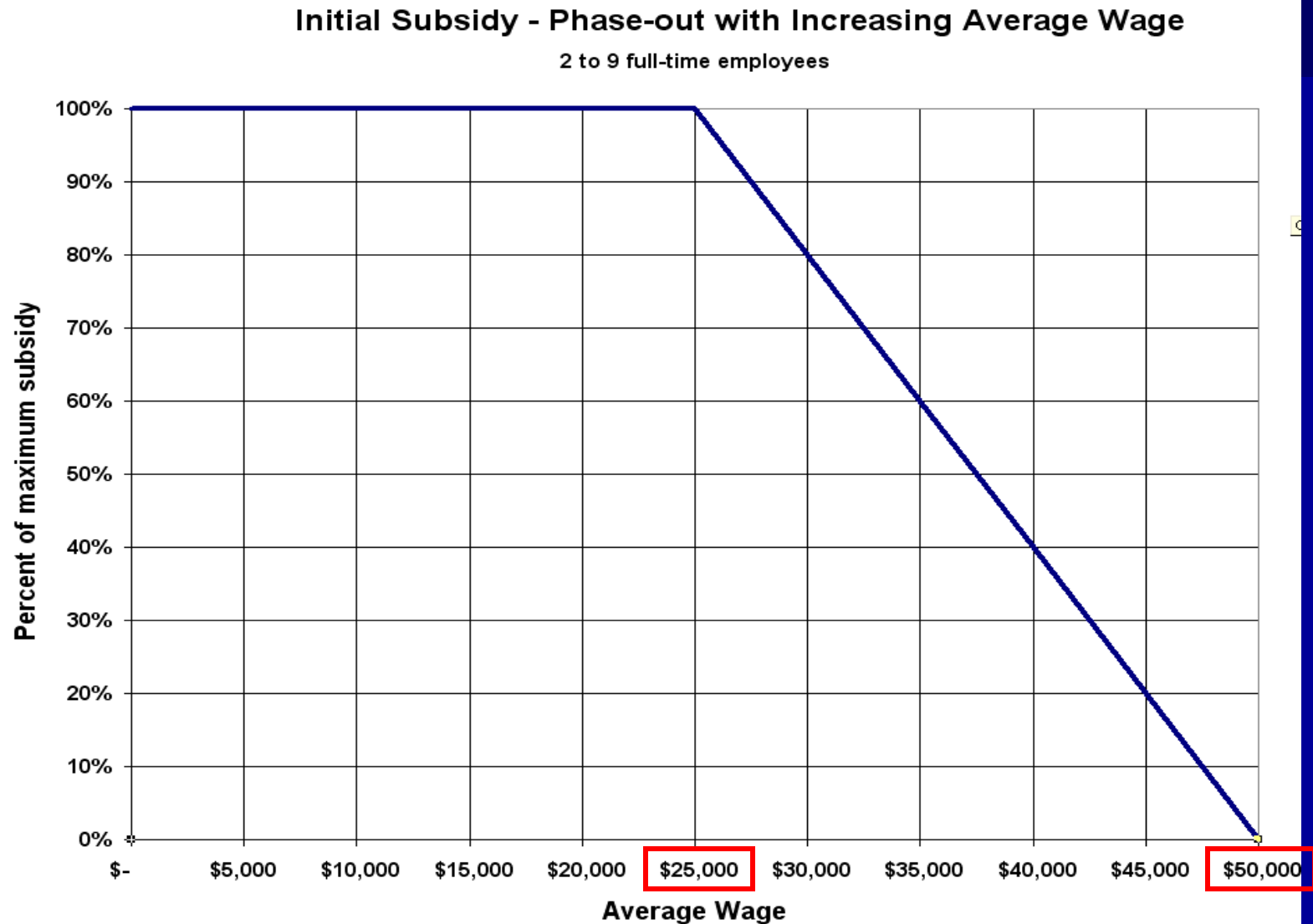
Employer establishes Section 125 plan

Monthly payment and reconciliation



How Will the Subsidy Be Calculated?

Design based on models developed by Jonathan Gruber
Consultation supported by AcademyHealth / RWJ grant



Amount of premium subsidy

(proposed - subject to final regulations)

- SB6: Either 50% of the premium or an amount set by the Commission, whichever is lower
- Proposed “maximum subsidy table” for FY2009
 - Based on 2006 HMO premiums “as purchased” in SGM

Average wage	Employee only	Employee + child	Employee + spouse	Family
<\$25,000	\$2000	\$3000	\$4000	\$5000
\$30,000	\$1600	\$2400	\$3200	\$4000
\$35,000	\$1200	\$1800	\$2400	\$3000
\$40,000	\$800	\$1200	\$1600	\$2000
\$45,000	\$400	\$600	\$800	\$1000
\$50,000	\$0	\$0	\$0	\$0

How Will the Average Wage Be Calculated?

- Information provided by employer
 - Hourly x avg. hours/wk x 52
 - Add weekly tip income x 52
 - Annual salary
- The owner/partner dilemma
 - The goals are to assist the small business and to get employees insured
 - The owner's income should not immediately disqualify a low-wage firm
 - Eligible Owner
 - 20% or greater financial interest and 30 hrs/wk (includes spouse who works 30hrs/wk)
 - Eligible owner's income
 - \$60,000 (current "trim" amount)
 - or the AGI or 50% of AGI if filing jointly on most recent federal return

Examples of Average Wage Calculations Using “Trim Amount or AGI

	\$120,000	\$60,000	\$60,000	\$35,000
	\$32,000	\$32,000	\$60,000	\$32,000
	\$26,000	\$26,000	\$60,000	\$26,000
	\$18,000	\$18,000	\$20,000	\$18,000
	\$17,000	\$17,000		\$17,000
Average	\$43,200	\$31,200	\$50,000	\$25,600
Subsidy – empl. only	\$540	\$1,560	\$0	\$1,960

The Special Case of Family Coverage

- We expect the great majority of coverage to be employee only
 - Spousal coverage is relatively expensive, probably due to risk selection
 - Employers subsidize family coverage less generously, if at all
- Nonetheless, subsidizing dependent coverage would be as efficient as the employee subsidy, and we wanted to encourage coverage of the entire family.
 - Note that some of the children are MCHIP eligible
- If eligibility were solely wage-based, a low-wage spouse could get subsidized coverage for a high income family
 - Therefore, employees will have to affirm to having a family income below \$75,000 to be eligible for a subsidy for the dependent coverage

Employer

- Select a licensed insurance producer who will handle the subsidy application
- Provide information about the business and its employees
 - Quarterly wage reports and current wages/salaries
 - Any previous health insurance offered by the business
- Select a health plan with a wellness benefit
 - We anticipate that both HMO and PPO plans will be available, and that some will be high-deductible plans with HSAs
- Select a percentage of the premium as the employer contribution
 - Employer contributions toward dependent coverage are allowed and are subsidized, but are not required
 - If an HSA plan is chosen, decide whether to contribute premium savings to the HSA (employer contributions to the HSA are eligible for the subsidy)
 - Contribution should be high enough to achieve the 75% participation rate required by insurers
- The employer receives the entire subsidy in the form of reduced premiums
 - the State pays the subsidy to the carrier
 - the employee's share of the subsidy is passed through in the form of reduced payroll deductions
- The employer pledges to establish a Section 125 plan

Employee

- Choice of coverage
 - Employee only
 - Employee plus children, or spouse, or both
- Agreement to payroll withholding under Section 125
- Information about public or private health insurance coverage within the last three months
 - to assess crowd-out
 - to document effect of program on uncompensated care
- If dependent coverage is chosen, signed affirmation that family Adjusted Gross Income (AGI) < \$75,000
 - If single, AGI from the individual return
 - If married filing separately, combine the AGI's of the separate returns
 - If married filing jointly, AGI from the joint return

Licensed Insurance Producer

- Vital to the success of small group programs
- Provide advice and education for the employer
 - HSA's and HDHP's, Section 125 plans pose special educational challenges
- Gather information necessary for carrier and premium subsidy applications, obtain quotes and subsidy estimates, assist employer decision-making
- Submit applications to carrier or designated TPA
 - Licensed insurance producer affirms that:
 - To the best of their knowledge, employer is eligible for the subsidy
 - Wages and number of full-time employees reported on the subsidy application are consistent with the employer's Quarterly Wage Report
 - Health benefit plan includes a wellness benefit
- Provide employee education, HR support, assistance in claims resolution

The Wellness Benefit

The wellness benefit is part of the carrier's benefit design, not a stand-alone employer-sponsored wellness program.

A qualifying wellness benefit must include:

- Health Risk Assessment (HRA)
- Education in the form of written feedback based on the HRA responses
- Financial incentive for prevention, health promotion, or disease management
 - Direct financial reward
 - Reduced cost sharing

Section 125 Premium Only Plan

- Allows employee premium payments to be excluded from both income tax and FICA tax
 - Substantial benefit to employees who pay taxes
 - Modest benefit to employers (no FICA tax on employee premium payments)
- Simple to establish, no annual reporting
 - Cost will be between \$0 and \$200 – easily recaptured through FICA savings
 - Establish plan and notify employees
 - No filing of documents or reports required
 - Keep plan document on file
 - Review the plan if the Federal law changes
 - Make adjustments to payroll
- Contract with Mercer
 - Materials, PowerPoint, community meetings
- Carriers and designated TPAs may provide as additional benefit

Expected questions:

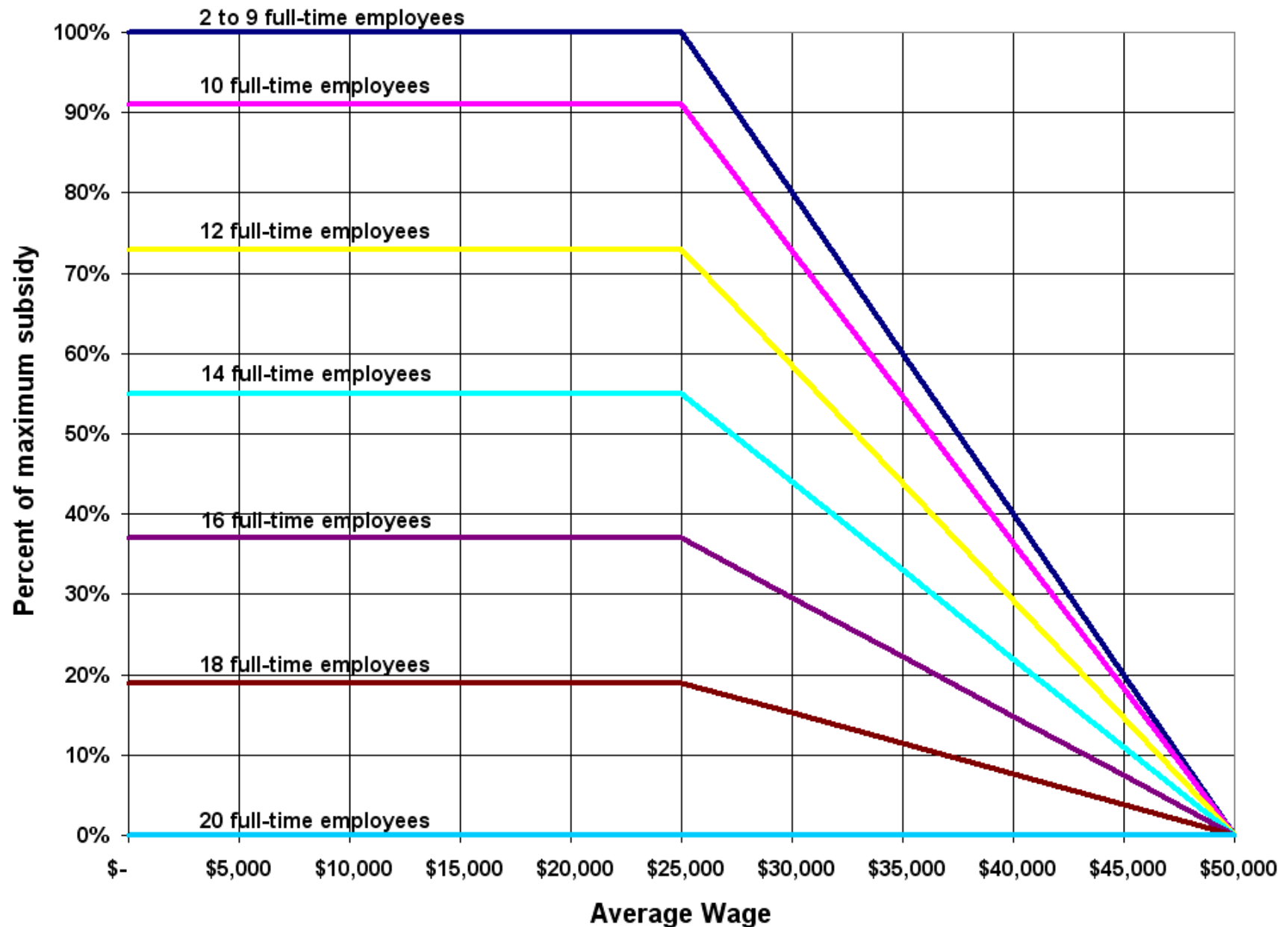
- Is this subsidy time-limited?
 - No – the Governor and the General Assembly intended this to be an ongoing program
- What happens when the program reaches its maximum size (initially \$15 million in FY09 and \$20 million in FY10)
 - The subsidy for each participating business will be capped at its then-current total subsidy amount
- What happens if my average wage increases?
 - The income limits in the maximum subsidy table will be adjusted annually for inflation
 - Subsidies will be adjusted annually at policy renewal to reflect the firm's average wage, but the gradual phase-out from \$25,000 to \$50,000 assures that the subsidy also phases out gradually as wages increase

Expected questions:

- What happens if my firm grows?
 - Individual firms qualify as program participants based on their size at the time of application
 - As long as the program as a whole is not capped, new employees of enrolled groups are eligible for the subsidy.
 - During the current policy year, the business pays the same per employee premium and receives the same per employee subsidy as other employees.
 - At the time of policy renewal:
 - The firm's age distribution will be used to determine a premium for the next year.
 - The firm's average wage will be recalculated and used to determine the premium subsidy for the next year
 - If the firm has ten or more employees, a further adjustment will be made based on the number of employees, so that the subsidy phases out between 10 and 20 employees.

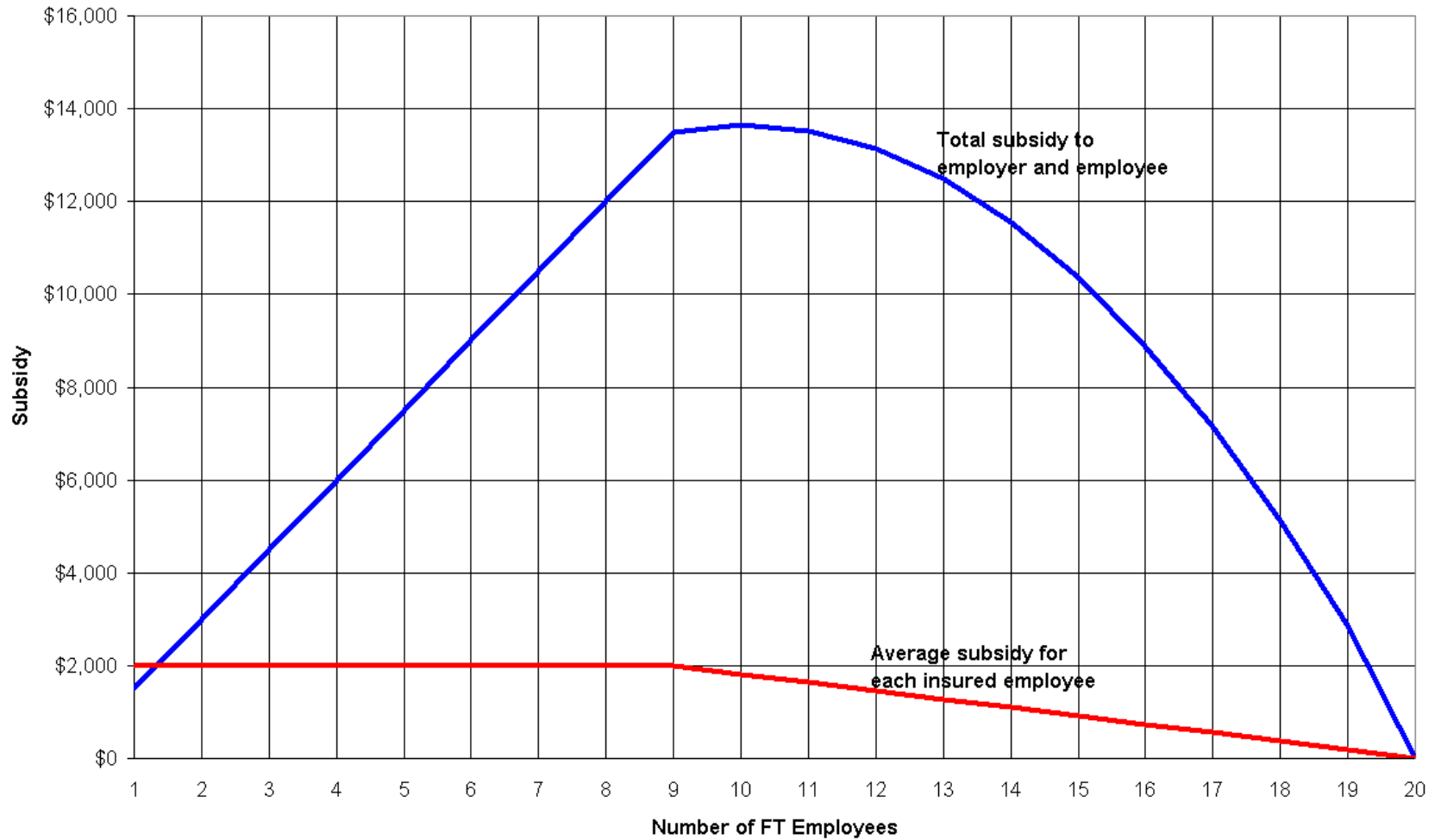
Phase-out of Subsidy with Increasing Average Wage and Size

Adjustments for average wage and size are made only at time of policy renewal



Subsidy as Size of Business Increases

Assuming \$2000/insured employee and 75% takeup



We turn to you as our consultants who know small businesses:

- Is the subsidy design reasonably clear?
- How will small businesses respond?
- What are the main concerns that we need to address head-on?
- What are the best ways of communicating with these small employers about the subsidy?
 - Presentations at meetings
 - Mailings, newsletters, newspaper articles
 - Web site with information about likely premiums and tools to calculate likely subsidy amounts
 - Other innovative ideas?

Thank you....



<http://mhcc.maryland.gov>

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